

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 23, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the Pendleton County Sheriff's Settlement - 2003 Taxes as of April 23, 2004.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Pendleton County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 23, 2004

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 23, 2004

Carpenter, Mountjoy & Bressler, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Pendleton County Sheriff as of April 23, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,601,738 for the districts for 2003 taxes, retaining commissions of \$162,867 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,428,461 to the districts for 2003 Taxes. Taxes of \$211 are due to the districts from the Sheriff and refunds of \$57 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Deposits:

The Sheriff's deposits were uninsured and uncollateralized by \$145,230 on October 31, 2003.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2003 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	8
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the Pendleton County Sheriff's Settlement - 2003 Taxes as of April 23, 2004. This tax settlement is the responsibility of the Pendleton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Pendleton County Sheriff's taxes charged, credited, and paid as of April 23, 2004, in conformity with the modified cash basis of accounting.

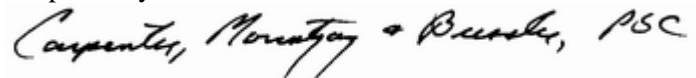
To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 24, 2004

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 23, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 567,479	\$ 579,236	\$ 2,114,383	\$ 559,072
Tangible Personal Property	48,703	42,492	156,927	177,294
Intangible Personal Property				19,583
Increases Through Exonerations	259	324	967	256
Omitted Taxes	109	98	348	112
Franchise Corporation	84,639	75,881	279,840	
Special Taxes	67	60	199	69
Additional Billings	142	127	528	140
Limestone, Sand, and Mineral Reserves	2,679	2,401	9,981	2,639
Bank Franchises	26,475			
Penalties	4,289	4,275	15,952	4,263
Adjusted to Sheriff's Receipt	<u>(2,518)</u>	<u>(2,225)</u>	<u>(9,442)</u>	<u>(2,527)</u>
Gross Chargeable to Sheriff	<u>\$ 732,323</u>	<u>\$ 702,669</u>	<u>\$ 2,569,683</u>	<u>\$ 760,901</u>
<u>Credits</u>				
Exonerations	\$ 3,018	\$ 2,928	\$ 11,246	\$ 2,974
Discounts	8,282	8,405	30,465	10,690
Delinquents:				
Real Estate	12,607	12,209	46,972	12,420
Tangible Personal Property	<u>203</u>	<u>178</u>	<u>655</u>	<u>586</u>
Total Credits	<u>\$ 24,110</u>	<u>\$ 23,720</u>	<u>\$ 89,338</u>	<u>\$ 26,670</u>
Taxes Collected	\$ 708,213	\$ 678,949	\$ 2,480,345	\$ 734,231
Less: Commissions *	<u>30,387</u>	<u>26,578</u>	<u>74,410</u>	<u>31,492</u>
Taxes Due	\$ 677,826	\$ 652,371	\$ 2,405,935	\$ 702,739
Taxes Paid	676,275	650,683	2,401,230	700,273
Refunds (Current and Prior Year)	<u>1,548</u>	<u>1,482</u>	<u>4,762</u>	<u>2,464</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3</u>	<u>\$ 206</u>	<u>\$ (57)</u>	<u>\$ 2</u>
* and ** See Next Page				

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 LARK O'HARA, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 April 23, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,041,329
3% on	\$	2,480,345
1% on	\$	70,065

** Special Taxing Districts:

Library District	\$	(21)
Extension Service District		(21)
Soil Conservation District		(1)
Mental Health District		2
Kenton Fire District		247

Due Districts or (Refunds Due Sheriff)	\$	<u>206</u>
--	----	------------

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

April 23, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 23, 2004
 (Continued)

Note 2. Deposits (Continued)

into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$145,320 of public funds uninsured and unsecured.

The County official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of October 31, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,259,828
Uncollateralized and uninsured	<u>145,320</u>
Total	<u><u>\$ 2,505,148</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2003 through April 23, 2004.

Note 4. Interest Income

The Pendleton County Sheriff earned \$3,242 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 24, 2004, the Sheriff owes \$416 in interest to the school district and owes his fee account \$656 in interest.

Note 5. Sheriff's 10% Add-On Fee

The Pendleton County Sheriff collected \$22,867 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Pendleton County Sheriff collected \$77 of advertising costs and \$436 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
COMMENT AND RECOMENDATION

As of April 23, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

On October 31, 2003, \$145,320 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None

PRIOR YEAR

None

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Pendleton County Sheriff's Settlement - 2003 Taxes as of April 23, 2004, and have issued our report thereon dated November 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's Settlement - 2003 Taxes as of April 23, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

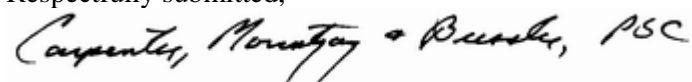
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 24, 2004

